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29 August 1956

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Copy No. 105

CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 18
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: 2009
AUTH: HR 70-2
DATE: 20 Dec 74 REVIEWER:

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OFFICE OF CURRENT INTELLIGENCE
CENTRAL INTELLIGENCE AGENCY

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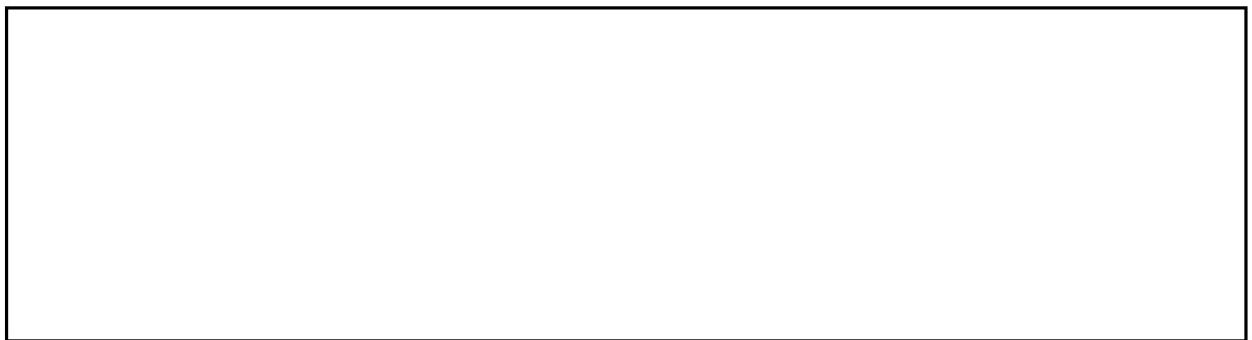
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CONTENTS



3. LEADER OF CHILE'S ANTI-INFLATION DRIVE OUSTED
FROM CABINET

25X1A

4. AFGHAN PRIME MINISTER PUBLICLY CONFIRMS ARMS
DEALS WITH USSR AND CZECHOSLOVAKIA

(page 6).

25X1A

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25X1A

29 Aug 56

Current Intelligence Bulletin

Page 2

Approved For Release 2003/01/29 : CIA-RDP79T00975A002700180001-2

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Approved For Release 2003/01/29 : CIA-RDP79T00975A002700180001-2

Next 1 Page(s) In Document Exempt

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3. LEADER OF CHILE'S ANTI-INFLATION DRIVE OUSTED FROM CABINET

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The replacement on 27 August of Oscar Herrera as head of Chile's ministries of finance and economy threatens the continuance of his austerity program, launched ten months ago, which has already ameliorated Chile's long-continued inflation.

This improvement in Chile's economic stability has appeared to modify the government's concept of Chile's role as leader of the opposition to United States economic policy at inter-American meetings. This modification was indicated by President Ibanez' co-operation at the Panama meeting of presidents in July. Should Chile's domestic economic situation again deteriorate, Chile may revert to its espousal of "share-the-wealth" policies at inter-American gatherings such as the meeting on 17-19 September of high-ranking representatives of the American republics. This meeting is scheduled to discuss President Eisenhower's Panama proposal for improving inter-American economic co-operation.

American ambassador Lyon believes that Herrera's ouster was motivated by political rather than economic policy considerations, but that it does not bode well for the future of the fight against inflation. Neither the new minister of finance nor the new minister of economy is a man of recognized public stature and both are likely to be more concerned with pleasing President Ibanez than with stabilizing the country's economy.

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**4. AFGHAN PRIME MINISTER PUBLICLY CONFIRMS
ARMS DEALS WITH USSR AND CZECHOSLOVAKIA**

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Afghan arms deals with the USSR and Czechoslovakia which were announced on 26 August by Prime Minister Daud probably are for small arms and artillery, and possibly tanks and aircraft.

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Daud announced that he had made the deals in accordance with the decision of the Grand Assembly of Tribes (Loe Jirga) last November. The Loe Jirga approved strengthening Afghanistan's military forces in order to support the Pushtoonistan campaign against Pakistan. Daud's announcement included a statement that he hoped Pakistani president Mirza's recent visit to Afghanistan would lead to "an understanding satisfying the Pushtoon people."

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